



**U.S. Department of Justice**

*United States Attorney*

*Eastern District of Pennsylvania*

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*615 Chestnut Street*

*Suite 1250  
Philadelphia, Pennsylvania 19106-4476  
(215) 861-8200*

FOR IMMEDIATE RELEASE

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**ATTORNEY BERNARD J. BAGDIS AND TEN OTHER DEFENDANTS  
INDICTED FOR CRIMINAL TAX FRAUD OFFENSES**

**Indictment Alleges that Bagdis Recruited Others to Join His \$23 Million Tax  
Obstruction and Tax Evasion Schemes**

PHILADELPHIA – United States Attorney Pat Meehan today announced the filing of an Indictment<sup>1</sup> charging attorney Bernard J. Bagdis and ten other defendants, with concealing income totaling more than \$23 million on which \$4.6 million is owed to the IRS. Among those charged with Bagdis are two doctors and another attorney, all of whom were either clients or former employees of Bagdis. The indictment contains 74 counts in total, and describes numerous acts of tax fraud occurring since at least 1996 up through 2006. Joining Meehan today in announcing the charges were I.R.S. Special Agent-in-Charge of the Criminal Investigation Division Leslie DeMarco, Federal Bureau of Investigation Special Agent-in-Charge J. P. Weis, and U.S. Postal Inspector-in-Charge Teresa L. Thome.

“People who defraud the IRS are not only stealing from the government, they are stealing from their fellow citizens,” Meehan said. “According to the indictment, this defendant was so proud of his schemes that he boasted he would write a book and call it ‘Federal Tax Fraud, The User’s Guide’. Our response to that statement is a 168 page document called an indictment and its title is ‘U.S. versus Bernard Bagdis’.”

"The prosecution of individuals who intentionally conceal income and evade taxes is vital to maintaining the integrity of our system of taxation," said DeMarco. "IRS, Criminal Investigation is committed to investigating individuals who willfully and intentionally violate their legal duty to voluntarily file income tax returns and pay taxes. Honest taxpayers should not foot the bill for other individuals who hide their income from the IRS."

**Overview of the Scheme to Obstruct and Impede the IRS**

Defendant Bagdis, a resident of Norristown, was a licensed attorney who allegedly owned and controlled various corporate entities that he utilized in order to facilitate his extensive

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<sup>1</sup> An indictment or information is an accusation. A defendant is presumed innocent unless and until proven guilty.

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and longstanding efforts to obstruct and impede the administration of the internal revenue laws. Bagdis also allegedly employed various aliases during his schemes. At his Blue Bell law and business office, Bagdis employed an associate attorney, a paralegal, and an administrative assistant to assist him in his efforts to defraud the IRS, and to encourage others to also commit tax crimes.

The indictment charges defendant Bagdis, who has not filed an individual federal tax return since at least 1990, with one count of attempting to impede and obstruct the IRS, seven counts of conspiracy, 16 counts of aiding and assisting the preparation of a false tax return, six counts of failing to file individual income tax returns or Forms 1096, and five counts of failing to file currency transaction reports.

According to the indictment, defendant Bernard J. Bagdis recruited as clients and employees various individuals, including physicians, lawyers and self-employed small business owners, to join his tax obstruction and tax evasion schemes. The alleged goal of these schemes was to conceal from the IRS personal and corporate income for the purpose of evading both the assessment and the payment of income taxes through the filing of false tax returns, and by failing to file tax returns. The indictment alleges that Bagdis assisted his clients and employees in creating nominee entities for the purpose of concealing from the IRS large portions of their income, and the source of that income, by funneling money through bank accounts of those nominee entities, and by paying bills out of the nominee entities' bank accounts and the bank accounts of other corporations which Bagdis controlled. Bagdis allegedly engaged in these transactions so that the sources and uses of funds were not directly traceable back to the individual clients or their social security numbers.

According to the indictment, Bagdis also represented himself to be the agent and U.S. representative of Merchants and Manufacturers Trust ("MMT"), a foreign financial institution, which actually was a dormant shell corporation that had been dissolved in Ireland in about 2000. Bagdis allegedly used MMT in order to assist clients in: concealing their income, circumventing federal laws requiring the payment of taxes and early withdrawal penalties on the premature distribution of funds from Individual Retirement Accounts ("IRAs"), concealing profits made from investments, and-creating phony encumbrances on their properties and fictional mortgage interest expense deductions through the establishment of sham promissory notes and mortgages.

According to the indictment, defendant Bagdis would instruct clients to send notices from the IRS directly to him, whereupon Bagdis would request transcripts from the IRS to determine the amounts of third party payments that had been reported to the IRS on behalf of clients. Bagdis then allegedly would direct the preparation of false federal tax returns for clients, which reported only the income reported by the third parties to the IRS and which claimed false deductions to offset that income. Bagdis also allegedly delayed responding to IRS inquiries and prepared and filed false documents with the IRS to hide the client's actual income.

### **Undercover Operation**

According to the indictment, the IRS conducted an undercover operation during which defendant Bagdis assisted the undercover agents in concealing more than \$100,000 in cash that the undercover agents told Bagdis they did not want the IRS to find. In the course of his dealings with the undercover agents, Bagdis allegedly described himself as an active member of the “anti-tax underground” and made a number of statements concerning his efforts to impede and obstruct the IRS, including a statement that the best approach in dealing with the IRS was to “hide in plain sight” both income and assets, and to eliminate the reporting of compensation payments by third parties to the IRS. Bagdis also allegedly explained to the undercover agents that “what you really want is an anonymous EIN, which is not traceable to you.” After allegedly noting that “[t]his is hide it in plain sight. There is no way anybody can construct a credible, can you decide whether they made money or not on this?[,]” Bagdis allegedly assured the undercover agents that, “what if you're a GS-9, bureaucrat at the IRS? You're not gonna understand how to do this. No one's gonna look at this. There's no way.” It is alleged that Bagdis further advised the undercover agents that, “If you want to hide \$10,000, don't hide it in an \$11,000 pile. Hide it in a million dollar pile . . . . Nobody will ever find it.”

According to the indictment, Bagdis' attempts to obstruct the IRS continued even after the execution of federal search warrants at his home and office on October 20, 2004. On April 15, 2005, it is alleged that defendant Kenneth Klinger recorded a conversation with Bagdis, during which Bagdis acknowledged his participation in the BDWC payroll tax evasion scheme and made several other statements, including a comment to Klinger that he was not worried about the ongoing federal investigation. Referring to the federal investigators, Bagdis allegedly stated: “No. Let them do all the work. Let them start up with their best case it will take them two years and they are going to say you made \$2 million and we go no we didn't let me see what you got. This is wrong, this is wrong, we do this all the time.” Bagdis allegedly told Klinger that, “I'm working on my new book, it's called Federal Tax Fraud, the User's Guide.”

### **Payroll Tax Fraud Scheme Involving Basement Doctor Waterproofing Co.**

According to the indictment, Basement Doctor Waterproofing Company (“BDWC”) was a large and successful business based in Pennsylvania that provided waterproofing and home remodeling services to customers in Pennsylvania and elsewhere. Defendants Kenneth Klinger and Steven Schulz were allegedly BDWC's principal officers. It is alleged that in late 1999, defendant Bagdis acquired from Klinger, Schulz and defendant Bertram Russell a 7% interest in BDWC, and that Bagdis obtained significant control over the finances, bank and personnel records, and tax filings of the company.

According to the indictment, Bagdis advised and directed the owners, officers and many employees of BDWC to disregard the internal revenue laws, including the requirements to

file federal individual and corporate income tax returns, and to pay income and wage taxes. Accordingly, it is alleged that BDWC did not file a corporate income tax return for the 1999 through 2003 tax years, as required by law. It is further alleged that Bagdis helped certain employees and officers of BDWC disguise their salaries as corporate income and not personal income, and consequently, the income was not directly associated with social security numbers and was difficult to discover by the IRS.

The indictment alleges that Bagdis also designed the accounting practices and procedures of BDWC to assist the company, its officers and employees in evading payroll and individual taxes; that Bagdis caused BDWC to not report to the IRS at least approximately \$2,123,480 in compensation paid by BDWC to individuals properly classified as outside contractors during the years 2000 through 2003. It is also alleged that, at Bagdis' direction, BDWC failed to report to the IRS a total of approximately \$10,397,313 in wages and compensation to officers and employees misclassified as outside contractors, thereby resulting in a payroll tax loss of approximately \$1,618,299.

#### **Other Defendants Charged**

Dr. Bertram R. Russell, a radiologist, is charged with conspiring with Bagdis to defraud the United States, and with 14 additional counts of tax-related offenses. Defendants Russell and Bagdis allegedly agreed that Russell would "drop out of the system," meaning that the defendants would try to eliminate the reporting by third parties to the IRS of compensation paid to Russell. The indictment alleges that Bagdis and Russell created a shell corporation and corporate bank account to receive his compensation and to pay for personal expenditures. Between 1998 and 2006, Russell allegedly earned almost \$3 million from his work as a radiologist, yet he reported none of this income to the IRS and paid no federal taxes on it. The indictment alleges that the criminal tax offenses in which Russell and Bagdis engaged resulted in a tax loss to the IRS of more than \$900,000. The indictment further alleges that Russell used the unreported income to pay for personal expenditures, including, among many others, school tuition for his children at various private universities and preparatory schools; country club membership and dues; household remodeling projects; credit card charges for vacations; and purchases of various types of personal merchandise. The indictment also alleges that Russell was a part-owner of Basement Doctor Waterproofing Company, and its predecessor company, Basement Doctor, Inc. In 2003, Russell allegedly signed a form sent to the IRS which falsely declared that an employee of Basement Doctor, Inc., defendant Kenneth Klinger, had received zero compensation from the company in 1998, when in fact Klinger had received approximately \$170,000 in compensation.

Dr. John P. Leichner, a general and vascular surgeon, is charged with conspiring with Bagdis to defraud the United States, and with eight additional counts of tax-related offenses. Defendant Bagdis allegedly assisted defendant Leichner in creating or using shell corporations to receive Leichner's unreported income, and which were used to conceal Leichner's assets and

disguise expenditures, including at times when the IRS was attempting to levy against Leichner's assets to collect a tax assessment that it had made with respect to the 1999 tax year. The indictment alleges that Leichner has not filed an individual income tax return since approximately 1991, and that between 1999 and 2005, Leichner earned approximately \$1,270,000 from his medical practice, and from a \$100,000 untaxed IRA withdrawal which Leichner deposited into a bank account controlled by Bagdis, and which he then used to help pay for a vacation home. The indictment alleges that Leichner reported none of this income to the IRS, and he paid no federal taxes on it, resulting in a tax due and owing of approximately \$251,000. From 1996 through 2005, the period of the charged conspiracy, and including at times when Leichner allegedly was attempting to evade the payment of the outstanding IRS tax assessment against him for his 1999 individual tax year, the indictment alleges that Leichner acquired or possessed personal assets of himself and his spouse in the name of a nominee corporation, Surging Skyward, including a Piper Aztec plane, a Ferrari automobile, a Lexus automobile, and a Mercedes-Benz automobile. The indictment also alleges that Bagdis and Leichner created and maintained trusts which did not file tax returns, and which held significant assets not associated with the name or social security number of Leichner, including a total of five rental or vacation homes located in Corolla, North Carolina.

Richard J. Frase, an engineer who works under a contract for the Chrysler Corporation, is charged with conspiring with Bagdis to defraud the United States, and with nine additional counts of tax-related offenses. Defendants Frase and Bagdis allegedly created a shell corporation to receive the income earned by Frase from Chrysler, and thereby evade the assessment and payment of his taxes. Frase allegedly had his salary paid to him through the Personnel Department, Inc., a company controlled by Bagdis, which then paid Frase a nominal amount of income per year. The remainder of Frase's income allegedly went into bank accounts controlled by Bagdis in the name of the Administar Corporation, and ultimately to a bank account held by Frase's shell corporation. During the years 1998 through 2003, Frase allegedly received approximately \$1,048,078 in income, resulting in a tax due and owing of approximately \$326,060.

Kenneth Klinger, a part-owner and a manager of BDWC, is charged with one count of conspiring with defendant Bagdis to defraud the United States, and with one count of tax evasion. According to the indictment, defendant Klinger became a client of Bagdis, who advised and assisted Klinger in forming a shell corporation to serve as a vehicle through which the personal income and expenses of Klinger would flow. Klinger allegedly did not file any tax returns or pay any federal income taxes during the years 1999 through 2003. During those years, Klinger and his wife received approximately \$1,385,542 in salary and compensation, the vast majority of which consisted of salary and compensation from BDWC. These earnings allegedly resulted in an approximate total tax due and owing of \$393,067.

Stephen Schulz, a part-owner and a manager of BDWC, is charged with one count of conspiring with defendant Bagdis to defraud the United States, and with one count of tax

evasion. According to the indictment, defendant Schulz became a client of Bagdis, who advised and assisted Schulz in forming a shell corporation to serve as a vehicle through which the personal income and expenses of Schulz would flow. Schulz allegedly did not file any tax returns or pay any federal income taxes during the years 1999 through 2003. During the years 1999 through 2003, Schulz and his wife received approximately \$927,081 in salary and compensation, the vast majority of which consisted of salary and compensation from BDWC. These earnings allegedly resulted in an approximate total tax due and owing of \$253,590.

Michael S. Klein, an attorney and former employee of the law office of Bernard J. Bagdis, P.C. from 1995 through October 2004, is charged with one count of conspiring with Bagdis to defraud the United States, and with one count of tax evasion. According to the indictment, defendants Bagdis and Klein created a shell corporation in Delaware to receive Klein's income from Bagdis. From 1995 through 2003, Bagdis allegedly paid Klein a total of approximately \$363,425, and Klein received additional income from his individual legal practice. However, it is alleged that Klein did not file any federal tax returns during those years and paid no federal taxes, resulting in an approximate federal income tax due and owing of \$74,446.

Kathleen Williams worked as an administrative assistant to Bagdis from 1987 until October 2004. Defendant Williams is charged with one count of subscribing to a false individual income tax return. During the years 1997 through 2003, she allegedly received approximately \$293,756 in salary from defendant Bagdis. Bagdis allegedly assisted Williams in utilizing a corporation to receive her income and to pay personal expenditures. Bagdis' criminal tax evasion efforts with respect to Williams allegedly resulted in an approximate total tax due and owing of \$61,158 for the years 1997 through 2003.

Steven Hedrick owned and operated James, Stevens & Daniels, which was in the business of debt collection in Delaware. Defendant Hedrick is charged with one count of income tax evasion. Defendant Bagdis allegedly assisted Hedrick in creating a shell corporation to serve as a nominee entity to receive his compensation. From 1998 through 2003, Hedrick and his spouse allegedly received over \$1.3 million in taxable income. According to the indictment, as a consequence of failing to file federal tax returns for tax years 1998 through 2003, and due to the false corporate returns that were filed at Bagdis' direction, there was an approximate tax due and owing of over \$500,000 for those tax years.

William K. Acosta, who owned several area businesses and partnerships during all or parts of the years 1998 to 2003, is charged with one count of conspiring with Bagdis to defraud the United States, and with one count of tax evasion. Defendant Bagdis allegedly assisted defendant Acosta in concealing from the IRS approximately \$684,534 in salary and other income earned during the years 1998 to 2003 by directing him to open bank accounts in the name of dormant corporation, through which Bagdis received Acosta's income and paid his personal expenses for a fee. In 1998 and 1999, Acosta allegedly received a total of more than \$220,000 in

premature and taxable distributions from IRA accounts. According to the indictment, years later, after the IRS had sent notices to Acosta regarding his failures to file a 1998 and 1999 tax return, Bagdis created phony documents that purported to reflect that the funds had been rolled over into a qualified IRA account at MMT, and prepared false tax returns that Acosta signed and filed for those years. The criminal tax offenses allegedly resulted in an approximate total tax due and owing of \$167,680.

Helen M. Gramaski, an owner of a commercial cleaning business, is charged with two counts of failing to file an individual income tax return. According to the indictment, between 1997 and 2003, Gramaski received personal income from her business of more than \$150,000, yet filed no federal income tax returns and paid none of the approximately \$61,604 in federal taxes due and owing for those years. Defendant Bagdis allegedly encouraged Gramaski to not file federal income tax returns and assisted Gramaski in concealing her income and assets from the IRS by establishing and incorporating Maid Aid, Inc. and the Gramaski Trust, which opened bank accounts that were used by Gramaski to receive her personal income and to pay her personal expenses.

#### INFORMATION REGARDING THE DEFENDANTS

NAME	ADDRESS	AGE
Bernard J. Bagdis	Norristown, PA	58
Bertram R. Russell	Gladwyne, PA	56
John P. Leichner	Newtown, PA	64
Richard J. Frase	Schoharie, NY and Rochester Hills, MI	61
Kenneth W. Klinger	Perkiomenville, PA	57
Stephen Schulz	Richboro, PA	43
Michael S. Klein	Warrington, PA	36
Kathleen Williams	Pottstown, PA	46
Steven Hedrick	Dover, DE	47
William K. Acosta	Gilbertsville, PA	52
Helen M. Gramaski	Ardmore, PA	68

## INFORMATION REGARDING THE CHARGES

NAME	CHARGES
Bernard J. Bagdis	Attempting to impede the administration of the tax code (1 count); Conspiracy to defraud the United States (7 counts); Assisting the preparation of a false tax return (16 counts); Failing to file individual income tax returns (3 counts); Failing to file IRS Forms 1096 (3 counts); Failing to file currency transaction reports (5 counts)
Bertram R. Russell	Conspiracy to defraud the United States (1 count); Income tax evasion (6 counts); Subscribing to a false income tax return (2 counts); Failing to file income tax returns (6 counts)
John P. Leichner	Conspiracy to defraud the United States (1 count); Income tax evasion (3 counts); Failing to file income tax returns (5 counts)
Richard J. Frase	Conspiracy to defraud the United States (1 count), Income tax evasion (6 counts); Subscribing to a false income tax return (3 counts)
Kenneth Klinger	Conspiracy to defraud the United States (1 count); Income tax evasion (1 count)
Steven Schulz	Conspiracy to defraud the United States (1 count); Income tax evasion (1 count)
Michael S. Klein	Conspiracy to defraud the United States (1 count); Income tax evasion (1 count)
Kathleen Williams	Subscribing to a false income tax return (1 count)
Steven Hedrick	Income tax evasion (1 count)
William Acosta	Conspiracy to defraud the United States (1 count); Income tax evasion (1 count)
Helen M. Gramaski	Failing to file income tax returns (2 counts)



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The case was investigated by the Internal Revenue Service-Criminal Investigation, the Federal Bureau of Investigation, and the United States Postal Inspection Service. The case has been assigned to Assistant United States Attorneys John J. Pease, Peter D. Hardy, and David J. Ignall, and Trial Attorney Sean O'Connell of the U.S. Department of Justice's Tax Division.

**UNITED STATES ATTORNEY'S OFFICE  
EASTERN DISTRICT, PENNSYLVANIA  
Suite 1250, 615 Chestnut Street  
Philadelphia, PA 19106**

**Contact: PATTY HARTMAN  
Media Contact  
215-861-8525**

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